

Message Text

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ACTION AF-06

INFO OCT-01 EUR-12 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 DODE-00 PA-01 PRS-01 AGR-05

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R 311313Z MAY 75

FM AMEMBASSY ACCRA

TO SECSTATE WASHDC 7713

INFO AMEMBASSY ABIDJAN

AMEMBASSY ADDIS ABABA

AMEMBASSY BAMAKO

AMEMBASSY CONAKRY

AMEMBASSY COTONOU

AMEMBASSY DAKAR

AMEMBASSY FREETOWN

AMEMBASSY KINSHASA

AMEMBASSY LAGOS

AMEMBASSY LOME

AMEMBASSY LONDON

AMEMBASSY MONROVIA

AMEMBASSY NAIROBI

AMEMBASSY NIAMEY

AMEMBASSY OUGADOUGOU

AMEMBASSY PARIS

USMISSION USEC BRUSSELS

USMISSION GENEVA

USOECD PARIS

C O N F I D E N T I A L SECTION 1 OF 2 ACCRA 3418

E. O. 11652: GDS

TAGS: EALR ECON GH

SUBJ: GHANA'S ECONOMY

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1. SUMMARY. GHANAIAN ECONOMY CURRENTLY GIVES IMPRESSION OF DRIFT AND DEEP MALAISE. THIS OPINION WIDELY HELD BY GHANAIAANS, BOTH WITHIN AND OUTSIDE GOVERNMENT, AND BY EXPATRIATES. FOREIGN EXCHANGE CONSTRAINT IS SERIOUS AND WORSENING, WITH NO PROGNOSIS NEAR-TERM IMPROVEMENT. RESULTING LOSS OF CONFIDENCE IN ECONOMY FEEDS ON ITSELF MAKING MATTERS WORSE, AND HAS POTENTIALLY SERIOUS POLITICAL IMPLICATIONS (BEING REPORTED SEPTEL). END SUMMARY.

2. A NUMBER OF EXTERNAL AND INTERNAL FACTORS, AMONG WHICH ARE BOTH GOG ACTIONS AND INACTIONS, HAVE COMBINED TO BRING CONSIDERABLE PESSIMISM ABOUT GHANAIAN ECONOMY AND ITS DIRECTION -- A PESSIMISM APPARTENLY SHARED BY GHANAIAAN BUSINESS AND MANY GOVERNMENT CIRCLES, EXPATRIATE BUSINESSMEN, AND DIPLOMATIC COMMUNITY. THESE FACTORS INCLUDE: (A) WORLDWIDE OIL PRICE INCREASES. GHANA IMPORTS ALL OF ITS PETROLEUM (ALTHOUGH MOST REFINING IS DONE IN COUNTRY), AND THE BILL FOR THIS ONE COMMODITY LIKELY TO AMOUNT TO OVER ONE FIFTH OF PROJECTED 1975 IMPORTS. ADEQUATE MEASURES HAVE YET TO BE TAKEN TO REDUCE DEMAND FOR PETROLEUM VIA INCREASED PRICES. GHANA HAS BEEN LESS AFFECTED BY OIL PRICE INCREASE THAN OTHER LDC'S AT A COMPARABLE DEGREE OF DEVELOPMENT DUE TO EXISTENCE OF SUBSTANTIAL HYDRO-ELECTRIC CAPABILITY AT VOLTA DAM.

(B) HALVING OF WORLD COCOA PRICES FROM THE RECORD HIGHS EXPERIENCED IN 1974. WHILE COCOA PRICES REMAIN HIGH COMPARED WITH A FEW SHORT YEARS AGO, RECENT EXPECTATIONS BASED ON 1974 LEVELS HAVE BEEN DISAPPOINTED. COCOA ACCOUNTS FOR TWO-THIRDS OF GHANAIAAN EXPORT EARNINGS. NEXT IN IMPORTANCE IS TIMBER, WHICH IS IN WORLD-WIDE RECESSION.

(C) A COMBINATION OF ECONOMIC AND GEOGRAPHICAL FACTORS AND CIRCUMSTANCES, INCLUDING 1) AN OVERVALUED AND UNCONVERTIBLE CURRENCY, WHILE SURROUNDED BY HARD-CURRENCY COUNTRIES; 2) HIGHLY SUBSIDIZED BASIC CONSUMER GOODS (CANNED MILK, SOAP, GASOLINE, FERTILIZER, ETC.) WHICH ARE EITHER IMPORTED OR LARGELY MANUFACTURED FROM IMPORTED RAW MATERIALS; 3) PRODUCER PRICE FOR COCOA WHICH ARE HALF OF THOSE IN

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NEIGHBORING COUNTRIES; 4) A SERIOUS SHORTAGE OF A VAST RANGE OF LUXURY OR SEMI-LUXURY CONSUMER GOODS WHICH ARE ABAILABLE IN NEIGHBORING COUNTRIES, AND; 5) POROUS BORDERS, HAVE LED TO ALREADY MAJOR AND NOW APPARENTLY INCREASING SMUGGLING ACTIVITIES IN BOTH DIRECTIONS, TO THE DETRIMENT OF GHANA'S FOREIGN EXCHANGE POSITION.

(D) AN ECONOMY HIGHLY DEPENDENT UPON IMPORTS NOT ONLY FOR LUXURY AND CAPITAL GOODS AND MANY RAW MATERIALS, BUT EVEN FOR SOME BASIC FOODS, E.G., WHEAT, MILK, CANNED FISH.

(E) A DOMESTIC INFLATION RATE PROBABLY AT ABOUT 25 PERCENT ANNUALLY, MOSTLY MANIFESTED IN INCREASED PRICES LOCAL FOODS. WHILE GOOD PORTION INFLATION EXPLAINED BY IMPACT EXTERNAL FORCES (E.G., OIL PRICES) MAJORITY RESULTS FROM PERSISTENT BUDGET DEFICITS. THESE FOLLOW FROM RAPIDLY EXPANDING RECURRENT GOVERNMENT EXPENDITURES AND UNWILLINGNESS DEVELOP NEW INCOME-ELASTIC REVENUES. THIS WILL CONTINUE TO BE PERSISTENT, SERIOUS PROBLEM REQUIRING CAREFUL MANAGEMENT OVER NEXT FEW YEARS AS COCOA EXPORT REVENUES AND IMPORT DUTY COLLECTIONS FALL.

(F) A LOW LEVEL OF GDP GROWTH, COUPLED WITH A RELATIVELY HIGH RATE OF POPULATION INCREASE (APPROX. 2.9 PERCENT) LEADING TO STAGNATION OR ACTUAL DECLINE IN PER CAPITA GDP -- A PHENOMENON WHICH HAS SHOWN ITSELF OVER A CONSIDERABLE PERIOD. THIS DECLINE IN PER-CAPITA GDP WILL CONTINUE THRU 1975 AS (ACCORDING TO LOCAL IBRD SOURCE) RESOURCES AVAILABLE TO FINANCE IMPORTS (DOLS 600-610 MILLION) WILL BE SUFFICIENT TO SUPPORT (AT BEST) TWO PERCENT GROWTH REAL GDP. MUCH THE SAME SITUATION IS LIKELY TO PREVAIL IN 1976 EVEN WITH SUBSTANTIAL ASSISTANCE INFLOWS.

(G) A MIXED ECONOMY IN WHICH THE STATE, ASPIRING TO "SEIZE THE COMMANDING HEIGHTS OF THE ECONOMY," FEELS COMPELLED TO UNDERTAKE ACTIVITIES WHICH THE PRIVATE SECTOR DOES NOT OR CANNOT TAKE ON, ALTHOUGH THERE IS NO IDEOLOGICAL PRESSURE FOR STATE OWNERSHIP. THE PRIVATE SECTOR, A SIGNIFICANT PORTION OF WHICH REMAINS IN EXPATRIATE HANDS, CONTINUES TO DOMINATE. ALTHOUGH THE 1973 INVESTMENT WHITE PAPER AND THE CONFIDENTIAL

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RECENT INVESTMENT POLICY DECREE-1975 (ACCRA 2782), SET CERTAIN REQUIREMENTS REGARDING GHANAIAAN OWNERSHIP, MANY OF THESE REMAIN TO BE CLARIFIED -- LEADING TO INCREASING UNCERTAINTY.

(H) BOTH PRIVATE AND STATE SECTORS ARE HEAVILY RELIANT ON IMPORT LICENSES, AND THESE HAVE BEEN NOTORIOUSLY BADLY HANDLED. THE GOG ADMITS THAT IT LOST CONTROL OVER THE ISSUANCE OF LICENSES IN 1974, AND HAS NOW PLACED A VIRTUAL STRANGLEHOLD ON 1975 LICENSES. ALTHOUGH THERE HAVE BEEN REPEATED CALLS FOR AND ASSURANCES OF A SETTING OF IMPORT PRIORITIES, IN FACT NONE HAS YET BEEN MADE AND LICENSES CONTINUE TO BE ISSUED -- OR NOT ISSUED -- APPARENTLY BASED UPON BUREAUCRATIC CAPRICE. THE RESULT IS THAT SOME INDUSTRIES HAVE CLOSED DOWN (E.G., THE UNION CARBIDE BATTERY PLANT FOR MANY WEEKS); THERE ARE RUMORS THAT A

SHORTAGE OF BOTTLE CAPS WILL HALT BEER PRODUCTION BY JULY 1;
CONSUMER GOODS ARE RARER, AND KEY SECTORS LACK NECESSARY
SPARE PARTS. IN RECENT CONVERSATION WITH USAID DIRECTOR,
GOVERNOR OF BANK OF GHANA (NIKOI) SAID WHILE SITUATION VERY
DIFFICULT, IT HAD BEEN CONTAINED. HE CLAIMED COMPLAINTS FROM
MANUFACTURERS OVERDRAWN.

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INFO OCT-01 EUR-12 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

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FM AMEMBASSY ACCRA

TO SECSTATE WASHDC 7714

INFO AMEMBASSY ABIDJAN

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C O N F I D E N T I A L SECTION 2 OF 2 ACCRA 3418

(I) GOVERNMENT PLANNING APPEARS TO BE MORE OF A PIOUS HOPE THAN A REALITY. "GUIDELINES" FOR A 1975-80 PLAN WERE ISSUED IN JANUARY (ACCRA 381 AND 396) BUT TURNED OUT TO BE CONFIDENTIAL

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LARGELY A COMPENDIUM OF PROBLEMS, AND BROAD DESCRIPTIVE APPROACHES. SPECIFIC PROGRAMS AND POLICIES HAVE YET FULLY TO EMERGE. PLAN ITSELF IS TO BE ISSUED IN SUMMER, BUT WE EXPECT DELAYS. MEANWHILE, WE HAVE IMPRESSION SOME ELEMENTS OF GOG ARE OPERATING ON THEIR OWN WITHOUT REFERENCE TO WHAT PLAN MAY EVENTUALLY PRESCRIBE.

(J) OPTIMISM GENERATED AMONG DONOR COMMUNITY IN 1974 BY MEDIUM-TERM DEBT SETTLEMENT WANING. SENIOR MEMBERS GOG APPEAR PATHOLOGICALLY SHY OF CONTRACTING NEW DEBT, WITH RESULT THAT CERTAIN AVAILABLE EXTERNAL ASSISTANCE ON EASY TERMS GOES UNUTILIZED. BRITISH LOAN OFFER REMAINS UNUSED; FEDERAL GERMAN AID FULLY ALLOCATED BUT IMPLEMENTATION SLOW; EVEN THE SOVIETS AND OTHER EE'S TELL US THAT CREDITS FOR MACHINERY, ETC, DATING FROM THE NKRUMAH PERIOD GO BEGGING. GHANAIANS CONCERNED WITH NATIONAL PLANNING HAVE REPEATEDLY INDICATED DESIRE TO HOLD OFF DRAWING ON NEW LOANS UNTIL PLANNING PROCESS FARTHER ALONG TO AVOID ISAPPLICATION OF BORROWED FUNDS.

3. PRESENT NRC REGIME CAME TO POWER ON PLATFORM THAT PREDECESSOR HAD GROSSLY MISMANAGED ECONOMY. MANY NOW WONDER, INCREASINGLY ALOUD, WHETHER IN VIEW OF THE RECORD THE NRC HAS DONE ANY BETTER. NRC BLAMES WORLDWIDE INFLATION AND "ECONOMIC SABOTEURS" (HOARDERS AND SMUGGLERS, AGAINST A SELECTED FEW OF WHOM THERE HAVE BEEN RECENT VERY SHARP CRACKDOWNS).

4. OF LATE, GOG ASSURANCES TO PUBLIC THAT ALL IS WELL IN HAND, COMPLAINTS ABOUT "ECONOMIC SABOTEURS," AND PROMISES OF MAJOR PROGRESS HAVE NOT ONLY BEEN MORE FREQUENT, BUT HAVE TAKEN ON MORE SELF-CONVINCING AND HOLLOW RING. MANY OBSERVERS ARE AWARE THAT BASIC PROBLEMS REMAIN, AND INDEED MAY BE BECOMING WORSE. AMONG THESE ARE APPARENT UNWILLINGNESS TO: IMPOSE AUSTERITY OR DISCIPLINE UPON PUBLIC; ESTABLISH PRIORITIES; CLEAN UP OBVIOUS CASES OF MISMANAGEMENT AND/OR CORRUPTION IN PUBLIC SECTOR, AND; PLAN FOR THE LONG TERM. SPECIFIC EXAMPLE IS COCOA INDUSTRY; GOG IS AWARE THAT PRODUCTION IS STAGNANT AND SHARE OF WORLD MARKET IS ON LONG-TERM DOWNTREND (WHILE GHANA REMAINS ONLY COUNTRY FOR WHICH COCOA IS THE MAJOR EXPORT COMMODITY), YET INCENTIVES

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TO THE FARMER CONTINUE TO BE GROSSLY INADEQUATE, NECESSARY INSECTICIDES AND FERTILIZERS ARE UNAVAILABLE, REHABILITATION OF OLD TREES IS WOEFULLY INADEQUATE, ETC.

5. THERE ARE, OF COURSE, SOME REPORTS OF CONTRARY STRAINS. ELEMENTS OF THE GOG ARE REPORTED PRESSING TO FORCE THROUGH CERTAIN AUSTERITY MEASURES, INCLUDING PARTIAL LIFTING OF THE SUBSIDY ON MILK, AND A MAJOR INCREASE IN GASOLINE PRICES TO SLIGHTLY UNDER CEDIS 2/IMPERIAL GALLON VS,* PRESENT PRICE OF CEDIS 1.20. SOME ADVISORS, FEARING TO FACE THE CONSEQUENCES OF A GAS PRICE HIKE, ARE URGING WEEKEND CLOSING OF GASOLINE SALES PUMPS INSTEAD. THERE IS ALSO SPECULATION THAT NEW INCENTIVES FOR COCOA FARMERS WILL SOON BE ANNOUNCED; STRICT PRIORITY ORDERING OF IMPORT LICENSES CONTINUES TO BE PROMISED, AND WE HAVE EVEN PICKED UP ONE REPORT THAT THE NEW INVESTMENT POLICY DECREE WILL BE MODIFIED IN A MAJOR WAY TO KEEP FROM DISCOURAGING FOREIGN INVESTORS. THE HIGH COST SHORT TERM CREDITS WHICH WERE USED TO FINANCE 1974 SURGE IN IMPORTS WERE REPAID BY FEBRUARY 1975. OUTSTANDING TRADE ARREARS INHERITED FROM PREVIOUS GOVERNMENT WERE REDUCED BY DOLS 25 MILLION IN 1974 TO A TOTAL OF DOLS 83 MILLION AT END OF YEAR. OBLIGATIONS WITH RESPECT TO DIVIDEND AND PROFIT REMITTANCES STOOD AT DOLS 93 MILLION END 1974 AS OPPOSED DOLLS 77 MILLION AT END 1973. NIKOI RE-EMPHASIZED TO USAID DIRECTOR THAT GOG HAS NOT RPT NOT DRAWN ON OIL FACILITY (ALTHOUGH WE NOTE IT APPLIED FOR) OR GOLD TRANCHE AS THESE BEING HELD "IN RESERVE."

6. UNLESS AND UNTIL SOME POSITIVE SIGNS OF DISCIPLINE AND BOOTSTRAPPING ARE FORTHCOMING, HOWEVER, EMBASSY BELIEVES GHANA CONTINUES TO HAVE A NEAR-TERM FUTURE OF DRIFT, INDECISION, AND STAGNATION. IT SHOULD BE NOTED THAT WHILE MANY OF THE STICKY AND DIFFICULT PROBLEMS WHICH PLAGUE THE GHANAIAN ECONOMY HAVE BEEN ENHANCED BY GHANAIAN ACTION OR INACTION THE FACT REMAINS THAT IN LARGE MEASURE THEY MAY BE TRACED TO FACTORS EXTERNAL TO GHANA AND COMMON TO THE REST OF THE WORLD. NIKOI, IN CONVERSATION REPORTED ABOVE, GAVE IMPRESSION HE RECOGNIZED GHANA FACES DIFFICULT ECONOMIC SITUATION BUT PROBLEMS COULD BE DEALT WITH.
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